

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q



92 14 6976

Quarterly Report Pursuant to Section 13 or 15 (d)  
of the Securities Exchange Act of 1934For the Quarter ended March 31, 1992  
Commission File Number 0-15540

## FRONTIER FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Washington(State or Other Jurisdiction of  
Incorporation or Organization)91-1223535(IRS Employer  
Identification Number)6623 Evergreen Way  
Everett, Washington 98203

(Address of Principal Administrative Offices) (Zip Code)

(206) 347-0600

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(g) of the ACT:

Common Stock (No Par Value)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The issuer has one class of common stock (no par value) with 1,040,938 shares outstanding as of March 31, 1992.

PROCESSED BY

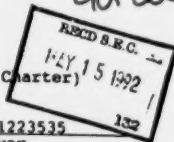
BEST COPY  
AVAILABLE

MAY 13 1992

Microfilmed by  
Q-Data Corp. - St. Petersburg, FL

L30

140/LZ

M  
92-2019

FRONTIER FINANCIAL CORPORATION & SUBSIDIARIES

Index to Quarterly Report on Form 10-Q

March 31, 1992

|                                                                                                     | <u>Page</u> |
|-----------------------------------------------------------------------------------------------------|-------------|
| <b>PART I - Financial Information</b>                                                               |             |
| Item 1. Financial Statements.                                                                       |             |
| Consolidated Balance Sheet -<br>March 31, 1992 and Year End 1991.                                   | 1           |
| Consolidated Statement of Income -<br>Three Months Ended March 31, 1992<br>and 1991.                | 2           |
| Consolidated Statement of Cash Flows<br>- Three Months Ended March 31, 1992 and<br>1991.            | 3           |
| Statement of Changes in Stockholders' Equity -<br>March 31, 1992                                    | 4           |
| Notes                                                                                               | 5           |
| Item 2. Management's Discussion and Analysis of<br>Financial Condition and Results of<br>Operation. | 6-11        |
| <b>PART II - Other Information</b>                                                                  |             |
| Item 1. Legal Proceedings.                                                                          | 12          |
| Item 4. Submission of Matters to a Vote of Security<br>Holders.                                     | 12          |
| Item 6. Exhibits and Reports on Form 8-K.                                                           | 12          |
| Signature                                                                                           | 13          |

# FRONTIER FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (Notes 1 and 3) (Unaudited) (In Thousands)

March 31, December 31,

1992 1991

### ASSETS

|                                             |                   |                   |
|---------------------------------------------|-------------------|-------------------|
| Cash and Balances Due from                  |                   |                   |
| Depository Institutions                     | \$ 20,065         | \$ 22,249         |
| Securities (market value 3-31-92, \$79,648) | 77,448            | 54,542            |
| Federal Funds Sold (12-31-92, \$58,220)     | 23,000            | 22,965            |
| Loans (Note 2)                              |                   |                   |
| Loans Net of Unearned Income                | 248,104           | 247,205           |
| Less: Allowance for Loan Losses             | ( 3,973)          | ( 3,773)          |
| Net Loans                                   | 244,131           | 243,432           |
| Premises & Fixed Assets, Net                | 4,836             | 4,829             |
| Other Real Estate Owned                     | 205               | 67                |
| Other Assets                                | <u>5,190</u>      | <u>4,925</u>      |
| <b>TOTAL ASSETS</b>                         | <b>\$ 374,875</b> | <b>\$ 353,009</b> |

### LIABILITIES

|                          |                       |                       |
|--------------------------|-----------------------|-----------------------|
| Deposits:                |                       |                       |
| Non-Interest Bearing     | \$ 48,261             | \$ 46,594             |
| Interest Bearing         | <u>295,808</u>        | <u>277,657</u>        |
| Total Deposits           | 344,069               | 324,251               |
| Federal Funds Purchased  | 395                   | 340                   |
| Long-Term Debt           | 985                   | 1,023                 |
| Other Liabilities        | <u>3,955</u>          | <u>3,345</u>          |
| <b>TOTAL LIABILITIES</b> | <b><u>349,404</u></b> | <b><u>328,959</u></b> |

### EQUITY CAPITAL

|                                               |                      |                      |
|-----------------------------------------------|----------------------|----------------------|
| Common Stock                                  | 24,380               | 19,627               |
| Retained Earnings (Note 3)                    | <u>1,091</u>         | <u>4,423</u>         |
| <b>TOTAL EQUITY CAPITAL</b>                   | <b><u>25,471</u></b> | <b><u>24,050</u></b> |
| <b>TOTAL LIABILITIES &amp; EQUITY CAPITAL</b> | <b>\$ 374,875</b>    | <b>\$ 353,009</b>    |

The accompanying notes are an integral part of these financial statements.

**FRONTIER FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME (Notes 1 and 3)**  
(Unaudited)  
(In Thousands)

| <b>INCOME</b>                                                           | <b>THREE MONTHS ENDED<br/>March 31, 1992</b> | <b>THREE MONTHS ENDED<br/>March 31, 1991</b> |
|-------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| <b>Interest Income:</b>                                                 |                                              |                                              |
| Interest & Fee's on Loans                                               | \$ 6,814                                     | \$ 6,257                                     |
| Interest on Investments                                                 | <u>1,590</u>                                 | <u>1,393</u>                                 |
| <b>Total Interest Income</b>                                            | \$ 8,404                                     | 7,650                                        |
| <b>Interest Expense:</b>                                                |                                              |                                              |
| Interest on Deposits                                                    | 4,316                                        | 4,347                                        |
| Interest on Borrowed Funds                                              | <u>32</u>                                    | <u>50</u>                                    |
| <b>Total Interest Expense</b>                                           | <u>4,348</u>                                 | <u>4,397</u>                                 |
| <b>Net Interest Income</b>                                              | 4,056                                        | 3,253                                        |
| <b>Provision for Loan Losses</b>                                        | ( 175)                                       | ( 40)                                        |
| <b>Non-Interest Income:</b>                                             |                                              |                                              |
| Service Charge on Deposit Accounts                                      | 329                                          | 279                                          |
| Other noninterest income                                                | <u>528</u>                                   | <u>303</u>                                   |
| <b>Total Noninterest income</b>                                         | 857                                          | 582                                          |
| <b>Noninterest expense:</b>                                             |                                              |                                              |
| Salaries and Employee Benefits                                          | 1,534                                        | 1,370                                        |
| Occupancy Expenses                                                      | 358                                          | 323                                          |
| Other Noninterest Expense                                               | <u>738</u>                                   | <u>645</u>                                   |
| <b>Total Noninterest Expense</b>                                        | <u>2,630</u>                                 | <u>2,338</u>                                 |
| <b>Income Before Taxes</b>                                              | 2,108                                        | 1,457                                        |
| <b>Applicable Income Taxes</b>                                          | ( 710)                                       | ( 368)                                       |
| <b>NET INCOME</b>                                                       | <u>\$ 1,398</u>                              | <u>\$ 1,089</u>                              |
| <b>AVERAGE NUMBER OF SHARES<br/>OUTSTANDING FOR THE PERIOD (Note 3)</b> | 1,040,908                                    | 940,745                                      |
| <b>PER SHARE OF COMMON STOCK</b>                                        | <u>\$ 1.34</u>                               | <u>\$ 1.16</u>                               |

The accompanying notes are an integral part of these financial statements.

**FRONTIER FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS**

(Unaudited)  
(In Thousands)

|                                                                                        | <b>THREE MONTHS<br/>ENDED<br/>March 31,<br/>1992</b> | <b>THREE MONTHS<br/>ENDED<br/>March 31,<br/>1991</b> |
|----------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                            |                                                      |                                                      |
| Net Income                                                                             | \$ 1,398                                             | \$ 1,089                                             |
| Adjustments to reconcile net income<br>to net cash provided by operating<br>activities |                                                      |                                                      |
| Depreciation and amortization                                                          | 162                                                  | 250                                                  |
| Provision for loan losses                                                              | 175                                                  | 40                                                   |
| Increase in income taxes payable                                                       | 555                                                  | 262                                                  |
| Decrease in interest receivable                                                        | (553)                                                | (396)                                                |
| Increase (Decrease) in interest payable                                                | (55)                                                 | 64                                                   |
| Other operating activities                                                             | <u>385</u>                                           | <u>385</u>                                           |
| Net cash provided by operating activities                                              | 2,067                                                | 1,694                                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                            |                                                      |                                                      |
| Proceeds from liquidation of investment<br>securities                                  | 1,560                                                | 4,178                                                |
| Purchase of investment securities                                                      | (24,580)                                             | (18,609)                                             |
| Net cash flows from loan activities                                                    | (970)                                                | 166                                                  |
| Purchase of premises and equipment                                                     | (147)                                                | (250)                                                |
| Other investing activities                                                             | <u>-0-</u>                                           | <u>-0-</u>                                           |
| Net cash used by investing activities                                                  | (24,137)                                             | (14,715)                                             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                            |                                                      |                                                      |
| Net change in demand deposit accounts                                                  | 20,488                                               | 7,746                                                |
| Net change in certificates of deposit                                                  | (647)                                                | 10,614                                               |
| Proceeds from issuance of stock                                                        | 23                                                   | 20                                                   |
| Other financing activities                                                             | <u>(41)</u>                                          | <u>(11)</u>                                          |
| Net cash provided by financing activities                                              | <u>19,823</u>                                        | <u>18,379</u>                                        |
| <b>INCREASE (DECREASE) IN CASH AND CASH<br/>EQUIVALENTS</b>                            | <b>(2,247)</b>                                       | <b>5,358</b>                                         |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING<br/>OF QUARTER</b>                           | <b>45,214</b>                                        | <b>31,380</b>                                        |
| <b>CASH AND CASH EQUIVALENTS AT END OF<br/>QUARTER</b>                                 | <b><u>\$ 42,967</u></b>                              | <b><u>\$ 36,738</u></b>                              |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br/>INFORMATION</b>                            |                                                      |                                                      |
| Cash paid during the year for interest                                                 | \$ 4,382                                             | \$ 4,304                                             |
| Cash paid during the year for income<br>taxes                                          | \$ 170                                               | - 0 -                                                |

The accompanying notes are an integral part of these financial statements.

**FRONTIER FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(UNAUDITED)

(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

|                         | Common Stock<br>Shares | Amount           | Retained<br>Earnings | <u>Total</u>     |
|-------------------------|------------------------|------------------|----------------------|------------------|
| Balance, December       |                        |                  |                      |                  |
| 31, 1989                | 769,690                | \$ 12,369        | \$ 3,484             | \$ 15,853        |
| Net Income for 1990     |                        |                  | 3,560                | 3,560            |
| Stock Options Exercised | 8,306                  | 116              |                      | 116              |
| Stock Dividends         | 76,971                 | 2,771            | (2,771)              | -0-              |
| Fractional Shares       |                        |                  |                      |                  |
| Purchased (Net)         | <u>258</u>             | <u>9</u>         | <u>      </u>        | <u>9</u>         |
| Balance, December       |                        |                  |                      |                  |
| 31, 1990                | 855,225                | \$ 15,265        | \$ 4,273             | \$ 19,538        |
| Net Income for 1991     |                        |                  | 4,426                | 4,426            |
| Stock Options Exercised | 4,773                  | 71               |                      | 71               |
| Stock Dividends         | 85,522                 | 4,276            | (4,276)              | -0-              |
| Fractional Shares       |                        |                  |                      |                  |
| Purchased (Net)         | <u>306</u>             | <u>15</u>        | <u>      </u>        | <u>15</u>        |
| Balance, December       |                        |                  |                      |                  |
| 31, 1991                | <u>945,826</u>         | <u>\$ 19,627</u> | <u>\$ 4,423</u>      | <u>\$ 24,050</u> |
| Net Income for First    |                        |                  |                      |                  |
| Three Months of 1992    |                        |                  | \$ 1,398             | \$ 1,398         |
| Stock Options Exercised | 155                    | 5                |                      | 5                |
| Stock Dividend          | 94,591                 | 4,730            | (4,730)              |                  |
| Fractional Shares       |                        |                  |                      |                  |
| Purchased (Net)         | <u>366</u>             | <u>18</u>        | <u>      </u>        | <u>18</u>        |
| Balance, March          |                        |                  |                      |                  |
| 31, 1992                | <u>1,040,938</u>       | <u>\$ 24,380</u> | <u>\$ 1,091</u>      | <u>\$ 25,471</u> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1.** The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, and with instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. All adjustments made to the unaudited interim financial statements were of a normal recurring nature. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 1992 are not necessarily indicative of the results that may be expected for year-end December 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation Annual Report on Form 10-K for the year ended December 31, 1991.

## **NOTE 2. Loans:**

The following is an analysis of the loan portfolio by major type of loans:

|                     | (In Thousands)        |                       |
|---------------------|-----------------------|-----------------------|
|                     | March 31,<br>1992     | December 31,<br>1991  |
| Commercial          | \$ 83,156             | \$ 85,028             |
| Real Estate:        |                       |                       |
| Commercial          | 53,783                | 52,098                |
| Construction        | 52,172                | 49,573                |
| Residential         | 41,503                | 42,740                |
| Installment         | <u>18,618</u>         | <u>18,914</u>         |
|                     | \$249,232             | \$248,353             |
| Unearned Fee Income | <u>( 1,128)</u>       | <u>( 1,148)</u>       |
| <b>TOTAL LOANS</b>  | <b><u>248,104</u></b> | <b><u>247,205</u></b> |

**NOTE 3.** The Board of Directors declared 10% stock dividends which were paid April 1, 1991, and March 23, 1992.

**NOTE 4.** Certain amounts in prior periods' financial statements have been reclassified to conform to the current presentation.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Highlights**

Consolidated net income for first quarter of 1992 was the highest in the history of Frontier Financial Corporation ("Corporation"), or Frontier Bank ("Bank"). Net income was \$1.4 million versus \$1.1 million for the first quarter of 1991, or up 28.4%. The main reason for the increase in 1992 over 1991 was increased net interest income of \$.8 million or 24.6%. The reserve for loan losses was 1.60% of total loans at the end of the first quarter of 1992, and 1.55% at the end of the same period in 1991.

Annualized return on average assets (ROA) was 1.57% for the first quarter of 1992, and 1.47% for the same period in 1991. Annualized return on average stockholders equity (ROE) for the first quarter of 1992 was 22.4%, and 21.8% in 1991. Earnings per share increased from \$1.16 in 1991 to \$1.34 in the first quarter of 1992. Earnings per share have been adjusted for the 10% stock dividend paid on March 23, 1992.

Consolidated total assets at March 31, 1992 were \$374.9 million, compared to \$312.8 million for the first quarter of 1991, or an increase of 19.9%. The investment in Federal Funds Sold increased from \$14.5 million at quarter end 1991 to \$23.0 million at quarter end 1992. Net loans increased \$37.8 million or 18.0% over the same period.

Deposits at March 31, 1992 were \$344.1 million, compared to \$286.2 million at the end of March 1991, or an increase of 20.2%.

**Net Interest Income**

Net interest income is the difference between total interest income and total interest expense. Several factors contribute to changes in net interest income. These include the effects of changes in average balances, changes in rates on earning assets and rates paid for interest bearing liabilities, the level of noninterest bearing deposits, stockholders' equity, and the level of nonaccrual loans.

The earnings from certain assets are exempt from federal income tax, and it is customary in the financial services industry to analyze changes in net interest income on a "tax equivalent" or fully taxable basis. Under this method, nontaxable income from loans and investments is adjusted to an amount which would have been earned if such income were subject to federal income tax. The discussion below presents an analysis based on "taxable equivalent" amounts at a 34% tax rate.

Net Interest Income was \$4.2 million for the first quarter 1992, versus \$3.4 million for the first quarter of 1991. The net interest margin, which is net interest income as an annualized percent of average quarterly assets, for the first quarter of 1992 was 4.76%, and 4.59% for the first quarter of 1991. The fact that the cost of funds is decreasing more rapidly than the yield on earning assets contributes to the higher net interest margin in 1992.

### Net Interest Income, continued

Average total loans increased from \$210.0 million at quarter end 1991 to \$248.4 million at quarter end 1992. Total earning assets increased to \$328.4 million from \$282.0 million at quarter end 1991, or 16.5%.

Average interest bearing deposits for the same periods increased to \$283.3 million, versus \$241.4 million for 1991. Total interest bearing liabilities increased to \$285.3 million from \$243.9 million in 1991.

The increase of \$.8 million in net interest income in the first quarter of 1992, as compared to the first quarter 1991, was due to an increase in interest income of \$.7 million, and a decrease in interest expense of \$.1 million.

The increase in the average balance of earning assets increased interest income by \$1.4 million, while a decline in interest rates decreased interest income by \$.7 million, for a net increase of \$.7 million.

The increase in the average balances of interest bearing liabilities increased interest expense by \$.5 million, and a decrease in interest rates reduced interest expense by \$.6 million, for a net decrease of \$.1 million.

Average noninterest-bearing deposits increased from \$33.7 million at quarter end 1991 to \$41.7 million at quarter end 1992. An increase in the average balance and number of business checking accounts is the reason for the majority of this increase.

### Non-Interest Income and Expense

Noninterest income for the quarter ended March 31, 1992 was \$.9 million as compared to \$.6 million for 1991. Service charges increased 17.9% to \$329,000 from \$279,000 in the first quarter of 1991. Other Income increased 74.3% to \$528,000 from \$303,000 a year earlier. The large increase is due to fee income from the IFS Department, which opened in March 1991, and an increase in broker loan fees to \$260,000 from \$105,000 in the first quarter 1991.

Trust department income increased \$17,431 in the first quarter of 1992, or 41.2%. The market value of trust assets managed at quarter end 1992 was \$38.0 million, compared to \$34.0 million at quarter end 1991.

Noninterest expense increased \$291,000, or 12.4% in the first quarter of 1992 when compared to the first quarter of 1991. Salaries and Benefits increased to \$1.5 million from \$1.4 million in 1991. As a percent of average assets, personnel costs for 1992 were 1.71%, and 1.84% in 1991. Occupancy expense increased \$35,000 over the same period last year, or 10.9%. Other Expense increased 14.4% to \$738,000.

## Loans

Total loans increased by \$37.8 million from March 31, 1991 to March 31, 1992, or 18.0%.

## Non-Performing Assets

Non-performing assets and problem loans are summarized as follows:

|                             | (In thousands) |          |
|-----------------------------|----------------|----------|
| March 31,                   | 1992           | 1991     |
| Non-accruing loans          | \$ 1,866       | \$ 1,448 |
| Restructured loans          | -0-            | -0-      |
| Other real estate owned     | 165            | 128      |
| Total non-performing assets | \$ 2,031       | \$ 1,576 |

It is the bank's practice to discontinue accruing interest on loans that are delinquent in excess of 90 days. Some problem loans which are less than 90 days delinquent are also placed into non-accrual status if the success of collecting full principal and interest is in doubt.

Restructured loans are those loans that had problems in the past, and are being monitored for performance.

The dollar amount of non-performing loans peaked during the third quarter of 1991 and then turned downward. These loans are well-secured and in the process of liquidation.

There are loans in the portfolio which are currently performing, but which may deteriorate to a non-accrual, past due, or restructured status in the future. Management developed a detailed review process several years ago to focus on early identification of problem loans. In 1991, management intensified that process by using more conservative standards. These loans are not only monitored, they have been carefully considered by management in assessing the adequacy of the allowance for loan losses.

### Credit Concentrations

There is some concentration of credits in the real estate construction and land development industry. These loans totaled \$42.5 million at March 31, 1991, or 20.2% of total loans, and \$52.2 million, or 21.0% of total loans at March 31, 1992.

At March 31, 1992 and 1991, the Corporation had no foreign loans or loans related to highly leveraged transactions.

### Allowance for Possible Loan Losses

For the quarter ended March 31, 1992, the allowance for possible loan losses increased to \$4.0 million, or 1.60% of loans from \$3.3 million, or 1.55% of loans at March 31, 1991. Non-accruing, restructured, and 90 days past due loans represented .81% and .71% of total loans for the same respective periods.

Management closely monitors the adequacy of the loan loss reserve on both a macro and micro basis. Analysis is performed six times per year; quarterly on a macro basis, and semi-annually on a micro basis.

In determining the adequacy of the allowance, management considered numerous factors, including the continuing level of non-performing loans, credit concentrations, and uncertain economic conditions. To date, the economy in the Pacific Northwest has been somewhat better off in the current nationwide recession, but a worsening of the economy in Frontier's market area could negatively affect loan performance and underlying collateral values. The full impact of a prolonged recession on the condition of the Corporation cannot be estimated.

### Liquidity and Interest Rate Sensitivity

The primary function of asset/liability management is to ensure adequate liquidity and maintain an appropriate balance between interest sensitive earning assets and interest bearing liabilities. Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds, or depositors who have credit needs.

- continued

### Liquidity and Interest Rate Sensitivity, continued

In addition to overnight Federal Funds sold to other banks, the marketable investment securities, particularly those of shorter maturities, are an additional source of liquidity. As of quarter end, 6.5% of the investment portfolio will mature within one year. This is an increase from first quarter end 1991 of 4.1%. Securities with maturities from one to five years comprised 35.5%, up from 33.2% in the comparable period in 1991. Liquidity can also be accomplished by the acquisition of deposits. The liquidity ratio of the bank at quarter end 1992 was 35.3%, compared to the same period in 1991 of 33.4% as measured by regulatory standards.

Interest rate sensitivity is closely related to liquidity because each is directly affected by the maturity, or repricing, of assets and liabilities. Management considers any asset or liability which matures, or is subject to repricing, within one year to be interest sensitive, although continual monitoring is also performed for other time intervals. The difference between interest sensitive assets and liabilities for a defined period of time is known as the interest sensitive "gap", and may be either positive or negative. If positive, more assets reprice before liabilities. If negative, the reverse is true. The Corporation's rate sensitive position, as measured by traditional "gap" methods, at quarter end 1992 was +1.15, and -.99 at quarter end 1991.

### Capital

Consolidated capital of the Corporation at first quarter end 1992 was \$25.5 million. This amount compares to \$20.6 million at March 31, 1991, or an increase of 23.8%. Almost all of the increase in capital came from retained earnings. The average capital to asset ratio at quarter end 1992 was 7.03%, and 6.74% at quarter end 1991.

Banking regulators have adopted new regulations that require bank holding companies to maintain a minimum leverage ratio of core capital (which excludes the allowance for possible loan losses and intangible assets) to total assets of at least 4 percent. At March 31, 1991 and March 31, 1992, the Corporation's leverage ratio was 6.57% and 6.30%, respectively.

In addition to the leverage requirements, the banking regulators have adopted risk-based capital guidelines, under which risk percentages are assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. The new rules require, by year-end 1992, Tier I capital of 4 percent of risk-adjusted assets and combined Tier I and Tier II capital of 8 percent. Tier I capital generally consists of common stockholders' equity, less goodwill, while Tier II capital includes the allowance for loan losses, subject to limitations. Based on the rules that will be in effect at year-end 1992, the Corporation's Tier I and combined Tier II capital ratios were 8.81% and 10.26% at March 31, 1991, and 9.04% and 10.48% at March 31, 1992.

Capital, continued

Management constantly monitors the level of capital of the Corporation, and believes that capital is adequate to meet present needs. As an ongoing process management considers, among other things, the present and anticipated needs of the Corporation, current market conditions, and other relevant factors, including regulatory requirements which may necessitate changes in the level of capital.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

No material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to the shareholders during the first quarter.

Item 6. Exhibits and Reports on Form 8-K

(a)(11) Computation of earnings per share is attached as Exhibit I.

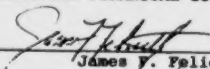
(b) No reports on Form 8-K have been filed for three months ended March 31, 1992.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRONTIER FINANCIAL CORPORATION

Date: 5-14-92



James V. Felicetty,  
Secretary/Treasurer

## EXHIBIT I

FRONTIER FINANCIAL CORPORATION  
COMPUTATION OF EARNINGS PER SHARE

For Three Months Ended March 31,

|                                                                                       | <u>1992</u>        | <u>1991</u>        |
|---------------------------------------------------------------------------------------|--------------------|--------------------|
| Net Income                                                                            | <u>\$1,397,875</u> | <u>\$1,088,524</u> |
| Computation of average<br>shares outstanding                                          |                    |                    |
| Shares outstanding at<br>beginning of year                                            | 945,826            | 855,223            |
| Additional shares deemed<br>outstanding because of<br>stock dividends                 | 24,257             | 85,522             |
| Shares issued during the<br>year times average time<br>outstanding during the<br>year | <u>125</u>         | <u>          </u>  |
| Average shares outstanding                                                            | <u>1,040,908</u>   | <u>940,745</u>     |
| Primary earnings per share                                                            | <u>\$ 1.34</u>     | <u>\$ 1.16</u>     |